

# EXHIBIT Q

**From:** Bill Hwang <bhwang@archegoscapital.com>  
**Sent:** Thu, 5 Nov 2020 12:06:24 -0500 (EST)  
**To:** Steven Chen <schen@archegoscapital.com>  
**Cc:** Sector USEU/Media Telecom <sectoruseummediatelecom@archegoscapital.com>; Brendan Sullivan <bsullivan@archegoscapital.com>; Brandon Berger <bberger@archegoscapital.com>; David Park <dpark@archegoscapital.com>; Sara Reed <sreed@archegoscapital.com>; Caroline Swenson <cswenson@archegoscapital.com>  
**Subject:** Re: DISCA reports 3Q20

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Thank you!

I like what I heard. Very cheap!

Unique enough content. We are buying some today and bought some yesterday too!

On Nov 5, 2020, at 10:38 AM, Steven Chen <schen@archegoscapital.com> wrote:

Bill,

Overall Discovery's results were better than feared, with stronger than expected commentary on 4Q US advertising trends, and they will hold a DTC presentation in December. Currently they have a handful of small DTC apps in the US and internationally, and last quarter they alluded to a more streamlined DTC offering with more content (describing it as an "SUV"). Content inclusion, pricing, and distribution will be major questions they should be answering in December (e.g., AVOD or SVOD; will sports in Europe be included; will they be offered as a channel on Prime Channels, Apple TV Channels, or Roku TRC, etc.). One note is that the International OIBDA decline of -46% y/y was mostly caused by international content costs increasing +16% y/y (+11% CC) due to sports costs such as French Open and Tour de France, yet international distribution revenue decreased -3% y/y, primarily driven by lower contractual rates and the fact that Discovery channels were dropped by some European distributors, which suggests that Discovery's remaining sports content is less must-have.

Post-call, DISCA is up 4% to \$21.40 (\$13.6bn market cap, \$29bn EV), representing 6.4x/5.6x PE (FY21/FY22 consensus), 7.3x/7.0x EV/EBITDA, and 18%/18% FCF yield (MS). Brendan increases his TP from \$28 to \$30, Dave's TP is \$35, and I maintain my TP of \$25. Please see highlights, attached materials, and notes.

- Gained 1.3-1.5% of share in various categories (incl. primetime 18-49) and TLC averaged more viewers than the cable TV news channels
- Advertising: disclosed that Oct US ad sales flat and international ad sales only down slightly, which is better than feared. However, there are government shutdowns beginning in Europe
- Distribution: the -6% decline in core subs was helped by recent distribution agreements. They implied that they are getting 6% pricing escalators by referencing the 2% growth in US distribution rev and the 4% sub declines on the core nets [fully distributed]
- Only ~10% of production remains paused
- Will discuss global DTC strategy in early December
  - Did not answer whether sports will be included in one package in Europe
  - New partnership with Sky (Discovery+): offered to Sky Q customers this month
  - Linear opex down MSD to HSD (CC) with savings reinvested in DTC

- Local sport and in some cases local news
- T Mobile TVision TV: why is Discovery only included in "Vibe" for \$10/mo but not their Live TV or Live TV+ packages for \$40 and \$50/mo
  - Per David, T-Mobile is required to carry Discovery channels on all of their basic tiers
  - Vibe includes 30+ channels such as AMC, Animal Planet, BET, BBC America, Comedy Central and the Discovery Channel

Thanks,  
DISCA team

#### Notes

- Monetize content across traditional linear ecosystems (free to air and pay TV) and DTC; monetization coupled with low cost product model provides Discovery with efficient programming and content model leading to increasing operating margins and FCF conversion
- U.S.
  - In U.S., gained most share among prime time TV viewers (18 – 49) and YTD, grew +1.3%
  - In 3Q20, grew +1.5% as viewers (18 – 49) watched Discovery channels; TLC (top network) beat every one of the cable news in 3Q20
  - Renewed w/ Mediacom, NCTC in addition to earlier in the year w/ Comcast, Charter, and Cox
- International
  - Internationally, achieved 5<sup>th</sup> consecutive quarter of growth, reaching +5% y/y and audience increased +10% y/y
  - In Norway, Sweden, and the U.K., have entered into win-win deals w/ distributors
  - Hybrid partnerships that expand long-standing linear distribution relationships also include B2B2C
    - New DTC partnership w/ Sky in the U.K. (Sky will offer Discovery+ to their millions of SkyQ customers starting this month)
- Financials
  - Reallocating capital to higher growth next-gen initiatives
  - Returned \$230m to shareholders via share repurchase plan (allocating 50% of FCF)
  - U.S. networks
    - Advertising revenue was -8% y/y largely attributable to Covid-related weakness in demand and continued declined in pay TV subscribers, but helped by healthier scatter CPMs (up HSD y/y)
    - Distribution revenue increased +2% y/y as affiliate rate growth offset subscriber declines; subscribers to core fully distributed networks (account for ~80% of distribution revenues) declined by 4% while total portfolio subscribers declined by 6% but this decline is slightly lower than previous quarters as Discovery benefited from additional distribution of certain networks due to recent renewals and continued strength from virtual MVPDs
  - International networks
    - Advertising revenue was -9% y/y; U.K., Germany, Spain, and Finland all finished w/ positive y/y growth; Latin America, the recovery will likely follow an uneven path; Asia Pacific was flat y/y
    - Distribution revenue was -4% y/y; schedule of sporting events is condensed while number of events have been delayed
    - Modest pickup in churn from more economically sensitive segments of pay TV segment in Latin America → seems to be Covid related and short term disruption
  - For October, domestic ad sales are flat and international ad sales are slightly down
    - Tailwinds from political advertising in U.S. while rising Covid cases globally and seeing countermeasures particularly in Europe pose risk to back end of the quarter
  - Total opex was +2% y/y (ex FX)

- Cost of revenues was +7% y/y (ex FX) due to sports
- 4Q should look like 3Q in terms of content ramp from both linear and DTC
- Total SG&A was -6% (ex FX), reduction in marketing, travel, and entertainment spend
- YTD total opex was -2% (ex FX) and remain on track for total opex to be flat (ex FX) for the year
- YTD tax rate is 21% and expect full year to be low 20% range
- GAAP diluted EPS increased +26% y/y to \$0.44 (due to recognizing deferred tax benefit in the U.K. and goodwill and intangible asset impairment charge related to Asia Pacific)
- FCF was -11% y/y largely due to Covid-related weakness in revenue and operating income; TTM FCF was \$3bn
- Net leverage of 3.3x; \$1.9bn of cash (includes \$250m of ST investments) and undrawn \$2.5bn revolver
- Executed debt exchange so maturities are ~15 years and cost is ~4%
- FX was tailwind of ~\$15m to revenue and operating income; in 4Q, expect tailwind to revenue to be ~\$5m and to operating income to be ~\$15m

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**From:** Steven Chen <schen@archegoscapital.com>

**Sent:** Thursday, November 5, 2020 7:30 AM

**To:** ArchegosInvest <invest@archegoscapital.com>; Sector USEU/Media Telecom <sectoruseummediatelecom@archegoscapital.com>

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**Subject:** DISCA reports 3Q20

Bill,

DISCA reported better-than-feared 3Q20 results with revenue -4% y/y (and US distribution revenue +2% y/y) and Adj. OIBDA -15% y/y (driven by international OIBDA -46% y/y). Cord-cutting was -6% y/y in linear and -4% y/y when including vMVPDs. Pre-call, DISCA appears flat (not traded per Google) at \$20.53 (\$13.5bn market cap). Pre-call our TPs are Brendan at \$28, Dave at \$35, and Steven at \$25. This quarter they repurchased \$228m worth of shares at an average of \$20.37 per share.

Call at 8am: <https://edge.media-server.com/mmc/p/8kh5vmrn>

Thanks,

DISCA team

- Revenue \$2.56bn -4% vs \$2.49B - beat
  - US \$1.659bn -4% vs \$1.63B - beat
    - Distribution \$696m +2% vs \$692.3M - beat
    - Advertising \$941m -8% vs \$920.3M - beat
    - Other \$22m vs \$23.4M
  - International \$902m -5% vs \$873.5M - beat
    - Distribution \$503m -7% vs \$505.8M
    - Advertising \$365m -3% vs \$340.2M - beat
    - Other \$34m vs \$34.9M
- OIBDA \$954m vs \$888.1M - beat
  - US \$951m -5% vs \$905.8M - beat
  - International \$127m -46% vs \$102.8M - beat
- EPS \$0.81 vs \$0.68 - beat

<DISCA Capsheet 20201105 3Q20 ACM.pdf>

<DISCA Capsheet 20201105 3Q20 MS.pdf>

<DISCA HOLT 2020 Q3.pdf>

<DISCA 3Q20 raw transcript.pdf>